

# Recession wiped out '02 surplus, report says

## Tax cut's impact on budget will be heavier in the future

By Jonathan Weisman  
USA TODAY

WASHINGTON — As a brawl heats up between Democrats and Republicans over who "lost" the budget surplus, a new congressional report says the recession is the main reason an expected \$31.3 billion surplus for 2002 has vanished.

A Senate Budget Committee analysis to be released today concludes that the government will run a \$1 billion deficit for the current fiscal year, which began Oct. 1. It would be the first red-ink budget since 1997. Next year, the report predicts, the deficit will grow to \$5 billion. Separate reports by House Democrats and Senate Republicans show similar figures.

Democrats blame President Bush's tax cut for shrinking the surplus, but the report by the Democratic-controlled panel says the tax cut was a minor factor in 2002. Over the next decade, however, the tax cut will be the largest drain on the surplus, the report says.

How a \$31.3 billion surplus projected by congressional budget experts only a year ago vanished is the focus of the harshest partisan

battle since Sept. 11. Democrats say Bush recklessly pushed through an expensive tax cut last year despite the unreliability of long-term budget forecasts.

The White House counters that the government's reversal of fortune is the result of an economic downturn that began last March and deepened after the terrorist attacks, which triggered new

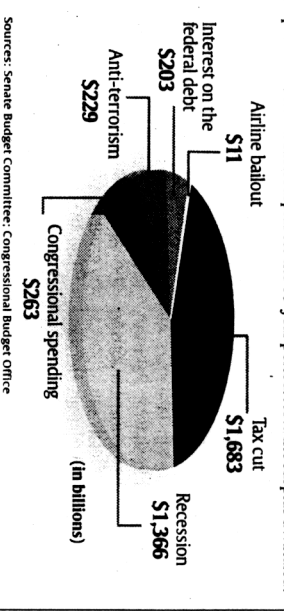
spending to fight terrorism. "The perfect storm," White House Budget Director Mitch Daniels said in an interview Wednesday.

Today's report says two-thirds of the expected 2002 surplus was lost because of the recession, which will lower tax revenue and increase spending for aid programs such as unemployment benefits.

About 14% of the surplus went for tax cuts and 18% for extra spending, much of it related to Sept. 11. In the longer term, the tax cut becomes a bigger factor because the steepest reductions are delayed for several years. Over the next decade, according to bipartisan budget estimates, a surplus expected last year to total more than \$5.6 trillion through 2011, has dwindled to about \$1.9 trillion. The forecasts say 45% of the lost

### Long-term surplus down but not out

The 2002-2011 surplus was expected to total \$5.63 trillion. Now, budget experts predict a \$1.87 trillion surplus for the 10-year period. How the surplus dwindled:



Sources: Senate Budget Committee; Congressional Budget Office.

By Adrienne Lewis, USA TODAY

surplus is attributable to the tax cut, 36% to a weak economy and 19% to higher spending. The numbers emerging on Capitol Hill underscore how radically forecasts swung in a year when the government was whipsawed by recession, terrorism and war.

"The most important lesson out of all of this is that you ought not to spend money that's not in the bank," says Leon Panetta, President Clinton's first budget director. "Everybody got carried away."

Indeed, the 10-year, \$5.6 trillion surplus projection was a dream for politicians: enough money to cut taxes, modernize the military, build an anti-missile shield, provide prescription-drug coverage to seniors, pay off the national debt

and save Social Security. But now that the 10-year bonanza is expected to shrivel to \$1.9 trillion, all of it the result of temporary surpluses in Social Security and Medicare, only the tax cut has been achieved. Remaining priorities are in limbo.

"There's been real damage done here," says Senate Budget Chairman Kent Conrad, D-N.D., and it's going to affect the lives of everyone in this country."

For 2003, Bush won't even propose a balanced budget, Daniels disclosed. The military, homeland security and an economic stimulus package come first, he says. "A balanced budget is very important, but winning the war, defending Americans and reviving the econo-

my are more important." The Senate Budget Committee's sober forecast is sure to launch the first great debate of the 2002 elections: "Who lost the surplus?"

But budget experts say the more important question should be, "What should the politicians do about it?" Clearly, the president and Congress face tough choices, the experts say.

The reduced surplus forecast doesn't include an economic stimulus package that Bush wants or the Pentagon's push for at least another \$100 billion over the next decade. It also assumes that the tax cut Bush signed in June will be repealed in 2010. Until then, the tax cut will provide an estimated \$1.35 trillion in relief and cost about \$350 billion in higher interest on the national debt.

Democrats may be in the most difficult position politically, says Richard Kogan, a budget analyst at the liberal Center for Budget and Policy Priorities. The party has tried to secure the mantle of fiscal responsibility and at the same time push popular government programs, such as Medicare prescription-drug coverage. Now, Kogan says, Democrats will have to choose between deficit spending, austerity or halting Bush's tax cut before most of it goes into effect.

Republicans, on the other hand, have secured their top political priority — a major tax cut — and

now can use the tighter budget outlook to restrain government spending, says Rudy Penner, a former director of the Congressional Budget Office. "The government will be smaller in the long run with the tax cut," Penner says. "That's a good thing."

But Republicans will find it more difficult to enact the business tax cuts they promised their corporate allies as recently as last month. And Bush's ambitious, and costly, plan to let workers invest some of their Social Security taxes in the stock market is dead for now.

Daniels concedes that some of the president's policy priorities will be dropped in the 2003 budget proposal that Bush releases on Feb. 4. He did not give examples.

Even large increases in spending sought for the military and homeland security will face some scrutiny, lawmakers vow. "No part of the budget can be given a blank check," Conrad says.

Bush has tried to pre-empt Democratic calls for blocking future tax cuts by calling such a move a tax increase. The charge still has potency against Democrats, who have struggled to shed the "tax-and-spend" label Republicans have pinned on them.

Panetta, a veteran of many bitter budget battles, says, "The only way the deficit issue will be solved is if both sides have the guts to sit down and cut a deal."

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